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July 7, 2004

Ms. Janet Diehl
Project Manager
California State Coastal Conservancy
1330 Broadway, 11th Floor
Oakland, California 94612-2530

RE: Review Appraisal Report, Hearst Ranch – Rancho Piedras Blancas Appraisal, Volumes I, II & III, San Simeon, San Luis Obispo County, California.

Dear Ms. Diehl:

We have completed and with this submit three (3) copies of a review of the Hulberg & Associates, Inc. real property appraisal covering the Hearst Ranch, prepared by Mr. Walter D. Carney, MAI on January 19, 2004 (Volumes I & II) and May 10, 2004 (Volume III). The three (3) volumes, as presented, are treated as a single and cohesive appraisal resulting in a market value opinion of the collective Conservation Easements¹, along with the conveyance of a portion of land in fee, all of which are presently being considered for purchase/donation from the underlying property ownership in a tentatively-structured confidential transaction. The reported date of valuation is January 16, 2004.

Volume I covers the appraisal of 81,774 gross acres, 81,663 net acres (the net acreage excludes Highway 1), **land only**, and otherwise excludes all building improvements. The appraisal represents the fee simple interest (subject to existing easements, covenants and/or other site conditions of record) in an "As Is" condition. Volume II represents the supporting documentation for Volume I, identified wholly as the Addenda.

¹ Conservation Easements, permanently encumbering both the East and West sides of Hearst Ranch, will for the West Side: protect natural and scenic resources, permanently increase public access west of Highway 1 and strictly limit development, and will for the East Side: achieve protection of the Conservation Values by sustaining, in perpetuity, a combination of agricultural operations and natural habitats within the Easement Area in accordance with the terms and conditions of this Conservation Easement.

Volume III is incorporated into the prior report volumes and is intended to be a part of, and continuation of, the original volumes for purposes of providing an opinion of the market value of the collective Conservation Easements along with a fee donation. Volume III covers the appraisal of 80,200 gross acres, 80,086 net acres, **land only**, and otherwise excludes all building improvements. The Volume III appraisal represents the fee simple interest (subject to the **new, collective Conservation Easements**, existing easements, covenants and/or other site conditions of record, **and reduced by the contribution of 1,577 acres to-be-donated in fee**) in an "As If" condition.

Note, a passage of time occurred between the preparation and analysis of Volume I and Volume III. During this period, revised land area calculations were provided to Mr. Carney, which resulted in slight modifications to the gross and net acreages by adding three (3) acres. This is reflected in the After Condition appraisal as 80,200 gross acres and 80,086 net acres. Mr. Carney reportedly conducted an analysis of the change in land area and its impact upon market value. The impact upon market value was minimis and consumed in rounding the final results and conclusions.

Volume III represents, via a classic and traditional easement valuation methodology, indications and ultimately, a reconciliation of the market value of the Conservation Easements along with a 1,577 acre fee donation through a "Before" and "After" analyses.

By way of analysis and comparison, Volume I reflects the "Before Condition" while Volume III reflects the "After Condition". The difference between the market value in the Before Condition and the market value in the After Condition is an appropriate measure of the market value of the collective Conservation Easements, along with the conveyance of a portion of land in fee, all of which are presently being considered for purchase/donation from the underlying property ownership in a tentatively-structured confidential transaction.

The scope of services for this review has been defined in the contract between the State Coastal Conservancy ("Conservancy") and Waldron & Associates, Inc. ("Waldron"). As understood, the objective of this review is to address four (4) tasks as outlined in a pending California Assembly Bill No. 1701, commonly referred to as the Laird Bill (March 8, 2004 version). The Conservancy's purpose is to evaluate compliance with the Uniform Standards of Professional Appraisal Practice ("USPAP") and conform to the pending Laird Bill.

The review is comprised of four major sections, intended to comply with Standard 3-2 of USPAP, which sets forth the reporting requirements for Appraisal Review. Sections I through IV are identified as: *(I) Review Assignment Background, (II) Overview of Appraisal Report Under Review, (III) Reviewer's Scope of Work, and (IV) Reviewer's Conclusions.*

(I) REVIEW ASSIGNMENT BACKGROUND

Reviewer's Client: California State Coastal Conservancy
c/o Ms. Janet Diehl
Project Manager
California State Coastal Conservancy
1330 Broadway, 11th Floor
Oakland, California 94612-2530

Intended Users: The only intended users of this review report are the staffs of the State of California agencies, including the State Coastal Conservancy, the Department of General Services, the Department of Parks and Recreation, the Wildlife Conservation Board, and Caltrans, who are assigned to the transactional review of the collective Conservation Easements intended to burden the Hearst Ranch – Rancho Piedras Blancas Property along with the conveyance of 1,577 acres to-be-donated in fee.

Intended Use of the Reviewer's Opinions & Conclusions:

The Reviewer's opinions and conclusions will be utilized in the evaluation of compliance with the Uniform Standards of Professional Appraisal Practice (USPAP) and conformance to the pending Laird Bill.

Purpose of the Assignment:

The objective of this review is to address four (4) tasks as outlined in a pending California Assembly Bill No. 1701, commonly referred to as the Laird Bill (March 8, 2004 version). These tasks are identified in *Article 2. Conservation Lands Acquisition Procedures, Section 5096.512. [b], (1, 2, 3, and 4) as follows:*

[b] The review appraiser shall review the appraisal and prepare an appraisal review report that does all of the following:

- (1) Summarizes the appraisal.
- (2) States the basis on which the value of the land was established.
- (3) Describes the standards used to prepare the appraisal.

- (4) Determines whether or not the appraisal meets the standards established under the Uniform Standards of Professional Appraisal Practice.

The Reviewers are not providing an independent opinion as to the market value of the subject property.

The Reviewers are providing an opinion about the quality of the appraisal report under review in the context of the scope of services with a focus upon the completeness, adequacy, relevance, appropriateness and reasonableness of the report under review.

(II) OVERVIEW OF THE APPRAISAL REPORT UNDER REVIEW

Subject Under Review:

The subject of this appraisal review assignment covers the review of the Hulberg & Associates, Inc. real property appraisal covering the Hearst Ranch, prepared by Mr. Walter D. Carney, MAI on January 19, 2004 (Volumes I & II) and May 10, 2004 (Volume III). This is a Self-Contained Appraisal Report. The three (3) volumes, as presented, are treated as a single and cohesive appraisal resulting in a market value opinion of the collective Conservation Easements, along with a conveyance of a portion of land in fee, all of which are presently being considered for purchase/donation from the underlying property ownership in a tentatively-structured confidential transaction. The reported date of valuation is January 16, 2004.

Volume I is comprised of four major sections: *Introduction, Regional, Highest and Best Use and Valuation*, all within one hundred and fifty-eight (158) numbered pages of narrative appraisal description, analyses and conclusions.

Volume II is comprised of summary references to confidential data provided to the appraiser, along with additional data independently gathered by the appraiser, including numerous documents, reports and studies identified as General Property Data, Preliminary Title Report, Certificates of Compliance, CEQA Reports and Related Documentation, County Zoning and Local Coastal Plan Information, Comparable Ranch Sales Data and Appraiser's Qualifications.

Volume III is comprised of three major sections: *Introduction, Area and Property, Valuation and Addenda* all within fifty-nine (59) numbered pages of narrative appraisal description, analyses and conclusions, excluding the *Addenda*. The *Addenda* section includes Photographs of the Subject Property, Draft Overviews of the West Side Conservation Plan for the Fee and Easement Areas, along with accompanying maps and exhibits, Summary of Key Components of the East Side Conservation Plan and Easement Areas, along with accompanying maps and exhibits, Comparable Sales Data and Appraiser Qualifications.

The Principal Reviewer also requested from the Conservancy, and was provided by Counsel representing entities of the Hearst Corporation, confidential and privileged draft documents relating to the Hearst Ranch Conservation Option Agreement which were referenced within the Volume III appraisal report.

The Reviewers were required to enter into confidentiality agreements for all material under review.

Date of Review:

Michael F. Waldron, MAI (Principal Review Appraiser) and Christer Fiege-Kollmann (Senior Review Appraiser) conducted the appraisal review during the period beginning on June 19, 2004 and extending through July 7, 2004. Both Review Appraisers, accompanied by Counsel for the Hearst Corporation, physically inspected portions of the subject property on June 29, 2004.

**Property and Ownership
Interest Appraised:**

The Subject Property is commonly known as Hearst Ranch, San Simeon, located in the northwest corner of San Luis Obispo County. The Ranch occupies about 128 square miles or roughly four percent (4%) of the County's total land area (3,326 square miles). The property is bordered by the Pacific Ocean on the west, by portions of Monterey County and the Los Padres National Forest on the north, and otherwise surrounded on the east and south by San Luis Obispo County. The Ranch is located about 170 miles south of San Francisco and 200 miles north of Los Angeles. Note that the Hearst San Simeon State Historic Monument (Hearst Castle) was previously conveyed to the State of California in 1957

and is therefore not a part of the subject property being appraised, other than recognizing the Castle as a neighborhood characteristic.

The Ranch contains approximately 81,774 gross acres and is a working cattle ranch with multiple, diverse and abundant coastal, scenic, environmental, historic, recreational and agricultural resources, along with about eighteen (18) miles of coastline within the Hearst ownership boundaries aligning Highway 1, all of which provide for significant development and /or conservation opportunities. The Ranch is often referenced geographically by West Side and East Side, referring to approximately 1,766 acres, west of Highway 1, and 80,008 acres, east of Highway 1. The Coastal Zone, created under the authorization of the State's Coastal Act, lies within an approximate 5-mile swath (east to west) from the westerly coastal property boundaries to a 5-mile line inland, and otherwise occupies about 48,732 acres. About 48,000 acres is actively grazed by cattle, of which 34,000 acres are defined as prime grazing land.

Volume I covers the appraisal of 81,774 gross acres, 81,663 net acres (the net acreage excludes Highway 1), **land only**, and otherwise excludes all building improvements. The appraisal represents the fee simple interest (subject to existing easements, covenants and/or other site conditions of record) in an "As Is" condition. Volume II represents the supporting documentation for Volume I, identified wholly as the Addenda.

Volume III is incorporated into the prior report volumes and is intended to be a part of, and continuation of, the original volumes for purposes of providing an opinion of the market value of the collective Conservation Easements and fee donation. Volume III covers the appraisal of 80,200 gross acres, 80,086 net acres; **land only**, and otherwise excludes all building improvements. The Volume III appraisal represents the fee simple interest (subject to the **new, collective Conservation Easements**, existing easements, covenants and/or other site conditions of record, **and reduced by the contribution of 1,577 acres to-be-donated in fee**) in an "As If" condition.

Volume III represents, via a classic and traditional easement valuation methodology, indications, and ultimately, a reconciliation of the market value of the Conservation Easements and a 1,577 acre fee donation through a "Before" and "After" analyses.

By way of analysis and comparison, Volume I reflects the "Before Condition" while Volume III reflects the "After Condition". The difference between the market value in the Before Condition and the market value in the After Condition is an appropriate measure of the market value of the collective Conservation Easements, along with the conveyance of a portion of land in fee, all of which are presently being considered for purchase/donation from the underlying property ownership in a tentatively-structured confidential transaction.

**Date of Completion
for Appraisal Report
Under Review:**

Volumes I & II reflect a report date of January 19, 2004. Volume III reflects a report date of May 10, 2004.

**Date of Valuation for
Appraisal Opinion
Under Review:**

The reported date of valuation is January 16, 2004 for all three appraisal volumes. The three (3) volumes, as presented, are treated as a single and cohesive appraisal resulting in a market value opinion of the collective Conservation Easements, along with the conveyance of a portion of land in fee, all of which are presently being considered for purchase/donation from the underlying property ownership in a tentatively-structured confidential transaction.

**Independent Appraiser
Conducting Appraisal:**

Mr. Walter D. Carney, MAI
Hulberg & Associates, Inc.
One Almaden Boulevard, Suite 700
San Jose, California 95113-2214

(III) REVIEWER'S SCOPE OF WORK

**Nature, extent
and detail of the
Review Process:**

In order to insure an understanding of the scope of services, the Principal Reviewer interviewed Conservancy Staff at the commencement of the review, including Ms. Janet Diehl, Project Manager and Mr. Dick Wayman, Communications Director and Real Estate Manager.

After executing the contract for environmental services, three (3) separate documents were provided by the Conservancy to the Reviewers identified as: (1) Appraisal Report, Volume I, Hearst Ranch, Rancho Piedras Blancas, "As Is", Before Condition, San Simeon, San Luis Obispo County, California, (2) Volume II – Addenda, Hearst Ranch, Rancho Piedras Blancas, "As Is", Before Condition, San Simeon, San Luis Obispo County, California, and (3) Appraisal Report, Volume III, Hearst Ranch, Rancho Piedras Blancas, "As If", After Condition, San Simeon, San Luis Obispo County, California.

The reports were first reviewed for general familiarity, context and completeness. To the extent any additional information was necessary to conduct the review of the reports, that information was requested. Volume III, referenced a confidential draft option agreement, requested and subsequently provided by Counsel representing the entities of the Hearst Corporation. This was the *Hearst Ranch Conservation Option Agreement*. Additional confidential information, contained within the appraiser's work file, was not provided.

The reports were then read again, this time in the context of adequacy and relevance of information relied upon in developing a solution to the appraisal problem.

Finally, the Reviewers conducted a third review of the appraisal documents, with a focus upon the appropriateness of the appraisal methodology and corresponding reasonableness of the highest and best use analysis, valuation analyses, conclusions and opinions set forth in the appraisal report, all in the context of the scope of services.

The Reviewers contacted Mr. Walter Carney, MAI, the independent field appraiser responsible for developing and reporting the appraisal, in order to confirm an understanding of the appraiser's assumptions and limiting conditions, hypothetical condition and extraordinary assumption as identified in the appraisal reports.

A mathematical error was discovered in a chain of calculations in Volume III. The Reviewers requested errata pages, correcting the error, along with a determination of the consequence of the revision upon the valuation analyses and conclusions, if any. Mr. Carney provided errata pages that corrected the calculation. The revised indication resulted in a slight adjustment, however, due to rounding, did not alter any of the appraiser's conclusions of value.

On June 29, 2004, the Reviewers met with Mr. Roger Lyon, Counsel for Hearst Corporation, in order to conduct a field inspection of the subject property. This was considered necessary in the context of better understanding subject property characteristics as described by the appraiser, especially in the context of the application of the Sales Comparison Approach in both the Before and After Condition.

While all market data was thoroughly described and analyzed, the Reviewers conducted a brief field inspection of several market data items.

The Review Appraisal Report was finalized and submitted to the Conservancy during the second week of July 2004.

**Assumptions & Limiting
Conditions:**

The Reviewers have attached the Certification and Assumptions and Limiting Conditions upon which the Review has been completed. The Reviewers have not made any extraordinary assumptions within the defined scope of services. Minor typographical errors exist within the reports under review, however are not considered to materially reflect upon the overall quality and reasonableness of the conclusions and opinions.

Market Conditions:

This review does not incorporate any market conditions beyond those that are described and concluded to within the appraisal reports. The effective date of valuation is January 16, 2004.

**No Requirement of Reviewer
to Develop an Independent
Opinion:**

The Reviewers are not providing an independent opinion as to the market value of the subject property.

The Reviewers are providing an opinion about the quality of the appraisal report under review in the context of the scope of services (Laird Bill - four tasks) with a focus upon the completeness, adequacy, relevance, appropriateness and reasonableness of the report under review.

(IV) REVIEWER'S CONCLUSIONS

The response to Task 1 is somewhat repetitive based upon preceding information, however warranted in responding directly and uniformly to the four primary tasks as identified in the scope of services. Responses to Tasks 2, 3 and 4 are also included in elements of the Task 1 response. The following tasks, as defined in the scope of services, are addressed as follows:

Task 1 - Summarizes the appraisal.

Subject Property

The Subject Property is commonly known as Hearst Ranch, San Simeon, located in the northwest corner of San Luis Obispo County. The Ranch occupies about 128 square miles or roughly four percent (4%) of the County's total land area (3,326 square miles). The property is bordered by the Pacific Ocean on the west, by portions of Monterey County and the Los Padres National Forest on the north, and otherwise surrounded on the east and south by San Luis Obispo County. The Ranch is located about 170 miles south of San Francisco and 200 miles north of Los Angeles.

Note that the Hearst San Simeon State Historic Monument (Hearst Castle) was previously conveyed to the State of California in 1957 and is therefore not a part of the subject property being appraised, other than recognizing the Castle as a neighborhood characteristic.

The Ranch contains approximately 81,774 gross acres and is a working cattle ranch with multiple, diverse and abundant coastal, scenic, environmental, historic, recreational and agricultural resources, along with about eighteen (18) miles of coastline within the Hearst ownership boundaries aligning Highway 1, all of which provide for significant development

and/or conservation opportunities. The Ranch is often referenced geographically by West Side and East Side, referring to approximately 1,766 acres, west of Highway 1, and 80,008 acres, east of Highway 1. The Coastal Zone, created under the authorization of the state's Coastal Act, lies within an approximate 5-mile swath (east to west) from the westerly coastal property boundaries to a 5-mile line inland, and otherwise occupies about 48,732 acres. About 48,000 acres is actively grazed by cattle, of which 34,000 acres are defined as prime grazing land.

Report Content & Format

The subject of this appraisal review assignment covers the review of the Hulberg & Associates, Inc. real property appraisal covering the Hearst Ranch, prepared by Mr. Walter D. Carney, MAI on January 19, 2004 (Volumes I & II) and May 10, 2004 (Volume III). This is a Self-Contained Appraisal Report. The three (3) volumes, as presented, are treated as a single and cohesive appraisal resulting in a market value opinion of the collective Conservation Easements, along with the conveyance of a portion of land in fee, all of which are presently being considered for purchase/donation from the underlying property ownership in a tentatively-structured confidential transaction. The reported date of valuation is January 16, 2004.

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Volume II represents the supporting documentation for Volume I, identified wholly as the Addenda. Volume II is comprised of references to confidential data provided to the appraiser, along with additional data independently gathered by the appraiser, including numerous documents, reports and studies identified as General Property Data, Preliminary Title Report, Certificates of Compliance, CEQA Reports and Related Documentation, County Zoning and Local Coastal Plan Information, Comparable Ranch Sales Data and Appraiser's Qualifications.

Volume III is incorporated into the prior report volumes and is intended to be a part of, and continuation of, the original volumes for purposes of providing an opinion of the market value of the collective Conservation Easements along with a fee donation. Volume III covers the appraisal of 80,200 gross acres, 80,086 net acres; **land only**, and otherwise excludes all building improvements. The Volume III appraisal represents the fee simple interest (subject to the **new, collective Conservation Easements**, existing easements, covenants and/or other site conditions of record, **and reduced by the contribution of 1,577 acres to-be-donated in fee**) in an "As If" condition.

Volume III represents, via a classic and traditional easement valuation methodology, indications and ultimately, a reconciliation of the market value of the Conservation Easements and 1,577 acre fee donation through a "Before" and "After" analyses.

By way of analysis and comparison, Volume I reflects the "Before Condition" while Volume III reflects the "After Condition". The difference between the market value in the Before Condition and the market value in the After Condition is an appropriate measure of the market value of the collective Conservation Easements, along with the conveyance of a portion of land in fee, all of which are presently being considered for purchase/donation from the underlying property ownership in a tentatively-structured confidential transaction.

Volume III is comprised of three major sections: *Introduction*, *Area and Property*, *Valuation and Addenda* all within fifty-nine (59) numbered pages of narrative appraisal description, analyses and conclusions, excluding the *Addenda*. The *Addenda* section includes Photographs of the Subject Property, Draft Overviews of the West Side Conservation Plan for the Fee and Easement Areas, along with accompanying maps and exhibits, Summary of Key Components of the East Side Conservation Plan and Easement Areas, along with accompanying maps and exhibits, Comparable Sales Data and Appraiser Qualifications.

Purpose

The purpose of the appraisal is two-fold; (1) provide a market value opinion of the fee simple interest, subject to existing easements and constraints of record, otherwise in an "As Is" condition, and (2) provide a market value opinion of the fee simple interest, subject to the new, collective Conservation Easements, existing easements and constraints of record, and reduced by the contribution of 1,577 acres to-be-donated in fee, otherwise in an "As If" condition.

Assumptions

The appraiser reports a number of conventional assumptions and limiting conditions upon which the opinions are developed and reported. Noteworthy is the fact that the subject property may benefit from substantial water rights and capacity. These rights were excluded from the underlying valuation analysis in both the Before and After Condition, only beyond the extent to which this resource supports highest and best use. Additionally, the appraiser's opinions are premised upon a *hypothetical condition* and an *extraordinary assumption*.

A "hypothetical condition" is defined as "That which is contrary to what exists but is supposed for the purpose of analysis. Hypothetical conditions assume conditions contrary to known facts about physical, legal or economic characteristics of the subject property; or about conditions external to the subject property, such as market conditions or trends; or about the integrity of data used in an analysis."² The appraiser assumes that the physical,

² Uniform Standards of Professional Appraisal Practice; Appraisal Standards Board; 2004 Edition; Page 3.

legal and economic condition of the property includes the existence of a collection of conservation easements burdening the subject property, which, by way of the analysis, have the affect of diminishing the market value of the subject property, whereby the Conservation Easements take on value. This is referenced in Volume III, in the After Condition appraisal, remarked "As If" After Condition.

An "extraordinary assumption" is defined as "An assumption, directly related to a specific assignment, which, if found to be false, could alter the appraiser's opinions or conclusions. Extraordinary assumptions presume as fact otherwise uncertain information about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis."³ The appraiser presumes that the physical, legal and economic condition of the property includes, as fact, the accuracy, validity, and finality of *draft* documents, easements and agreements which define and shape a collection of conservation easements burdening the subject property, which, by way of the analysis, have the affect of diminishing the market value of the subject property, whereby the Conservation Easements take on value. The appraiser reviewed proposed easement grant deeds, summary descriptions of key components of the terms, and related maps and diagrams. The appraiser cautions the reader "... although specific and very detailed talking points are addressed, indicating an impressive amount of agreement to date, documents provided are at the "framework" phase and changes are to be expected." This is referenced in Volume III, in the After Condition appraisal, remarked "As If" After Condition.

The Reviewer has concluded that the Appraiser's use of the hypothetical condition and the extraordinary assumption is required in developing credible opinions and conclusions. The Appraiser has a reasonable basis for the hypothetical condition and extraordinary assumption.

Highest and Best Use

The Appraiser conducts a thorough analysis of highest and best use in the Before Condition (Volume I) and After Condition (Volume III). He addresses each of the four elements of highest and best use in relation to an "as if vacant" scenario, the only relevant scenario based upon the assumptions and limiting conditions of the appraisal. A complete and balanced discussion leads to the ultimate determination of those uses, or sets of uses that are legally permissible, physically possible, financially feasible and maximally productive, in both the Before and After Condition.

Attributes of the appraiser's complete and balanced discussion include numerous references to open interviews, discussions and analyses with/of the County of San Luis Obispo, California Coastal Commission, Hearst representatives and other consultants, interested

³ Ibid.; Page 3.

parties, studies and documents. Not surprising, with the complexity of the assignment and uniqueness of the subject property, are the apparent divergent opinions and interpretations flowing from these relevant and important resources, all of which effect the property's development opportunities and constraints. To the appraiser's credit, he independently retains Counsel specializing in land use policies, one also familiar with coastal development issues, to assist in determining a reasonable basis for his conclusions. The appraiser recognizes extraordinary flexibility in the manner in which the property may be developed and, in fact, takes care in addressing threshold potentials from a market-based perspective, as opposed to opining to a specific plan of development, which the appraiser recognizes, as conjectural and speculative at the current level of advanced planning and study. Although there may be a reasonable expectation for development approvals consistent with the existing and certified Local Coastal Plan ("LCP"), he treats this as guiding the potential and not necessarily indicative of a precise level of approval or entitlement. He reports the significant risk associated with the entitlement and development process, reflected in time, cost and uncertainty. He relies upon market-based evidence to support the highest and best use conclusion. In the end, the appraiser effectively supports a grounded and conservative view of the subject property's development potential.

The appraiser concludes to a diverse and multi-tiered highest and best use based upon varying qualities of land throughout the Ranch.

In the Before Condition (Volume I), the appraiser concludes to a highest and best use as Ranch Preservation Community ("RPC"), which is a shared-amenity ranch where individual housing sites (divided fee interests in homesteads) benefit from common/shared access and use privileges to an assortment of community amenities available throughout the larger ranch. At Hearst Ranch, those amenities include, tremendous open space, twenty-three (23) curvilinear miles of private beaches and coves, bluff-top and backcountry trails, airstrip, agricultural and ranch facilities and improvements, and professionally managed cattle operations, hunting and fishing opportunities. The subject property's general development potential, in the Before Condition, stated as a base threshold, is for 271 legal lots per in-hand Certificates of Compliance, while recognizing a potential for up to 412 primary residential rights and up to 650 lodging unit rights (plus potential for additional units on Ragged Point).

The appraiser opines that lodging, recreational and commercial development will also be appropriate as the destination, visitor-serving element of this larger Hearst Ranch holding.

The appraiser concludes to a reasonable probability of subdividing portions of the Ranch, all consistent with a well-reasoned analysis of highest and best use, in order to create additional legal lots. A reconfiguration of existing parcels through a lot line adjustment process will assist in maximizing the value of amenities of individual parcels and the entire property.

In the After Condition (Volume III), the appraiser concludes to a highest and best use which first assumes the overlay of the new, collective Conservation Easements⁴ that significantly change (reduce) the legally permitted uses of the Ranch. The subject property's general development potential transitions in the After Condition, wherein the 271 Certificates of Compliance become subordinate to 33 legal lots, the potential for 412 primary residential rights are retired for 27 primary residential rights, and up to 650 lodging unit rights (plus potential for additional units on Ragged Point) are retired in favor of 100 lodging units. The Conservation Easements allow for a continuation of the commercial agricultural operations and a subdivision of four large parcel ranches. The four large ranches are included within the 33-lot count. Terms and conditions within the Conservation Easement require access and trail rights on the west side and impose restrictions and limitations on uses, which collectively burden the property and seek to preserve the property's substantial resources and existing character.

In addition to the burden of the Conservation Easements, the Hearst Ranch will be reduced in size by a donation of 1,577 acres. The 1,577-acre donation includes 1,059 acres on the West Side, which includes 110 acres for existing Highway 1, plus 518 acres on the East Side, all of which is for the proposed Highway 1 realignment. The area to-be-donated in fee and the area subject to the Conservation Easement will be made available for the development of the California Coastal Trail along the entire 18 miles aligning the West Side.

In the After Condition, the appraiser concludes to a similar manner of highest and best use as concluded to in the Before Condition, however at a substantially scaled-back level of development intensity, i.e., far lower densities, a loss of the extraordinary development flexibilities than existed before the burden of the Conservation Easements and a greater emphasis on the agricultural uses within the Ranch. The appraiser points to the Conservation Easements as nearly definitive of the maximum potential for development, which, at those defined levels, is also not without continued entitlement risk and uncertainty.

Valuation Methodology

In the Before Condition, the appraiser employs, exclusively, the Sales Comparison Approach to provide an indication of land value. The selected unit rate equivalents include price per acre and price per lot/parcel for the agricultural/commercial components and price per unit for the lodging components. Through a qualitative and quantitative analysis of comparing and contrasting various elements of comparability, the appraiser brackets the indications of value in the Before Condition.

⁴ Conservation Easements, permanently encumbering both the East and West sides of Hearst Ranch, will for the West Side: protect natural and scenic resources, permanently increase public access west of Highway 1 and strictly limit development, and will for the East Side: achieve protection of the Conservation Values by sustaining, in perpetuity, a combination of agricultural operations and natural habitats within the Easement Area in accordance with the terms and conditions of this Conservation Easement.

As previously stated, the appraiser recognizes, consistent with the market, various qualities of land throughout the Ranch. Three (3) areas are distinguishable by topography and geographic orientation, essentially primary market characteristics. The three areas are described as (1) Coastal Frontage/Terrace, (2) Mid-Inland Coastal Plains and Foothills and (3) Inland Rural. The 81,663 net acres is allocated at 3,989 acres, 44,716 acres and 32,958 acres, respectively. The recreation and visitor-serving commercial (lodging) is included within the Coastal Frontage/Terrace land use zone.

In the After Condition, the appraiser utilizes the Sales Comparison Approach with a focus upon three types of market data, based upon the transition in highest and best use to an easement encumbered, lower quality development opportunity (refer to *Highest and Best Use* discussion in Task 1).

In the first analysis, the appraiser employs a classic and traditional easement valuation methodology, often referred to as the before-and-after method. The Conservation Easements are assumed to burden the subject property, referred to as the After Condition. The difference in the market value of the property *without* the easement (Before Condition) to the market value of the property *with* the easement (After Condition) is equivalent to the market value of the easement (Conservation Easements). The analysis includes an adjustment to reflect the conveyance of 1,577 acres of land in fee, which is the donation component in a tentatively structured confidential transaction.

Here again, the appraiser recognizes, consistent with the market, various qualities of land throughout the Ranch. Several areas are now distinguishable by the limitations on use and density with a detailed breakdown that includes: on the West Side, a 94-acre lodging component, and on the East Side, 25-homesites, two (2) large ranches with agricultural emphasis and substantial open space elements, and two (2) areas with existing homesites and other ranch facilities.

In the second analysis, the appraiser gathers, studies and analyzes easement sales/transactions. The easement sales are illustrative of the value-diminishing effect upon use and development as imposed by the restrictions and limitations of the easements.

In the third analysis, the appraiser gathers, studies and analyzes sales and resales of ranch properties that sold without a conservation easement in place and then subsequently resold with a conservation easement in place. The fee interest sales, subject to the easements (after condition), are illustrative of the value-diminishing effect upon use and development as imposed by the restrictions and limitations of the easements.

Valuation

In the Before Condition, the search for relevant market data focused upon California coastal properties and extended beyond California and abroad. The final selection of market data includes fifteen (15) items, all located within California, extending from San Mateo

County at the north, to Ventura County at the south. Sale dates for these "ranch" properties include twelve (12) items with sales data ranging from April 2000 to November 2003, one (1) sale occurring in October 1998, one (1) sale occurring in February 1990 and one (1) current listing. In addition to the ranch sales, five (5) coastal lodging land sales are studied as supplementary to the application of the Sales Comparison Approach. Sale dates include two (2) items ranging from December 1998 to January 1999, two (2) escrows and one (1) listing.

Consistent with the three zones of value, the fifteen primary market data items are categorized by land use type, i.e. (1) Coastal Frontage/Coastal Terrace Ranches, (2) Mid-Inland Coastal Plains & Hillside Ranches, and (3) Inland-Rural Ranches. Each category or land use type has five (5) market data items assisting in a direct application to the subject property's diverse land use character. Coastal Frontage/Coastal Terrace Ranches range in size from about 416 acres to 6,831 acres with unit rates ranging from about \$6,000 per acre to \$600,000 per acre with the majority clustering around \$20,000 to \$25,000 per acre. Mid-Inland Coastal Plains & Hillside Ranches range in size from about 780 acres to 19,967 acres with unit rates ranging from about \$3,456 per acre to \$13,219 per acre. Inland-Rural Ranches range in size from about 2,192 acres to 9,866 acres with unit rates ranging from about \$3,490 per acre to \$50,697 per acre with the majority clustering around \$3,500 to \$5,700 per acre. The appraiser recognizes that categories one (1) and two (2) have common characteristics.

In the After Condition, for the application of the first analysis (before and after analysis), the search for relevant market data focused upon California coastal properties and extended inland for low-density, agriculturally influenced sales data. The final selection of market data includes five (5) additional items, all located within California, extending from Monterey/Fresno Counties at the north, to Santa Barbara County at the south. Sale dates for these "inland ranch" properties range from June 1999 to April 2002. In addition to the inland ranch sales, four (4) coastal lodging land sales are studied as supplementary to the application of the Sales Comparison Approach. Sale dates include two (2) items ranging from December 1998 to January 1999, one (1) escrow and one (1) listing. These inland ranch sales are intended to supplement the previously gathered ranch sales (detailed in Volume I), particularly the Inland Rural Ranch sales. These additional sales range in size from about 501 acres to 5,208 acres with unit rates ranging from about \$403 per acre to \$1,968 per acre.

For the application of the second analysis, a search for relevant market data focused upon easement transactions along with known or provided information as to that particular property's estimated market value. The final selection of market data includes six (6) items, all located within California, extending from Santa Clara County at the north, to Santa Barbara County at the south. Sale dates for these "easement" properties range from September 2000 to December 2003.

In the second analysis, the appraiser compares and contrasts the purchase price of the easement sale with the known or reported sale/appraised value of the underlying property without the burden of the easement. The unit rates are expressed as a percentage of easement prices over unencumbered market value. These percentages range from 36% to 80%.

For the application of the third analysis, a search for relevant market data focused upon sales and resales of ranch properties that sold without a conservation easement in place and then subsequently resold with a conservation easement in place. The final selection of market data includes four (4) items, all located within California, extending from San Mateo County at the north, to Monterey County at the north, as well as a confidential item located in a prominent coastal area of California. Sale dates for these "sale-resales" range from 1987/1992 to November 2001/March 2003.

In the third analysis, the appraiser compares and contrasts the original sale without the easement to the resale with the burden of the easement. The unit rates are expressed as a percentage of easement encumbered sale over unencumbered sale. These percentages range from 36% to 82%.

Value Conclusions

In the Before Condition, the appraiser applies three selected rates per acre to the three zones of property type. The three zones are identified as (1) Coastal Frontage/Terrace, (2) Mid-Inland Coastal Plains and Foothills and (3) Inland Rural. The 81,663 net acres is allocated at 3,989 acres, 44,716 acres and 32,958 acres, respectively. The respective unit rates per acre are: \$22,000, \$4,000 and \$2,500. **This results in a rounded and ultimately reconciled conclusion of market value, in the Before Condition, at \$350,000,000.**

The final opinion of market value relates to \$4,282 per gross acre or \$1,291,513 per legal parcel (271 Certificates of Compliance). The appraiser estimates the exposure period at one to two years. In reflecting upon the analysis, the appraiser recognizes the strengths and weaknesses in the data and the application. Many other smaller ranch sales (contained in the appraiser's work file) assist in defining the relationship of "retail" unit rates versus "bulk" unit rates. In essence, the smaller ranch sales data were exhibiting substantially higher unit rates as compared to the larger ranch sales. A "retail" analysis would essentially add the individual lot sales (minimally 271 in-hand) at the retail unit rate to arrive at a retail value before discounting. A "bulk" analysis would assume a sale of the whole property, in its entirety, thereby being consistent with the definition of market value as defined in the purpose of the assignment without a discount required. Although the appraiser recognizes the subject property's unique zones of value and applies unit rates associated with these zones, the applied unit rate has been adjusted for size and development issues (time, cost, risk and uncertainty) to arrive at a bulk rate equivalent for the application of the respective zones of value.

The appraiser provides context to the final opinion by commenting that Hearst Ranch is a premier California coastal ranch with local, national and international identity and appeal. Overall, much of the market data was inferior as compared to Hearst Ranch. In other words, Hearst Ranch is superior to nearly all properties in the marketplace. However, in the absence of other meaningful data and in keeping with a desire to reflect a well-supported opinion of market value, the appraiser maintains a conservative (by the appraiser's admission) final reconciliation.

In the After Condition, the appraiser applies three separate derivations of the Sales Comparison Approach.

In the first analysis, the appraiser applies a blended valuation that builds to an overall indication of value for the After Condition at \$130,055,000. The difference between the Before Condition market value at \$350,000,000 and the After Condition Value at \$130,055,000 results in a rounded indicator of \$220,000,000 for the Conservation Easement, inclusive of the 1,577 acres of land to-be-donated in fee.

In the second analysis, the appraiser applies a reconciled range of 60% to 70% of easement contribution against the underlying market value of the subject property in the Before Condition, previously concluded at \$350,000,000. This results in an indication of value for the Conservation Easement, inclusive of the 1,577 acres of land to-be-donated in fee, expressed in a range of \$210,000,000 to \$245,000,000.

In the third analysis, the appraiser applies a reconciled rate of 70% of easement contribution against the underlying market value of the subject property in the Before Condition, previously concluded at \$350,000,000. This results in an indication of value for the Conservation Easement, inclusive of the 1,577 acres of land to-be-donated in fee, calculated at \$245,000,000.

The appraiser includes a brief discussion of a confidential option agreement, dated April 9, 2004, between Hearst Holdings, Inc., as Grantor and American Land Conservancy, as Grantee. This prospective transaction is treated as an additional relevant data item. Among a number of terms and conditions, the option provides for a right to purchase the conservation easement and accept the donation of the fee interest in a portion of the subject property. The option price is \$95,000,000 comprised of \$80,000,000 cash plus \$15,000,000 in California Tax Credits. The difference between the market value of the Conservation Easement with the donated land and the option price will likely be treated as a "bargain sale", a measure of additional charitable tax benefits. The agreement references a threshold minimum tax credit value of \$27,300,000. The option reportedly references the value of the conservation easement, reported by the seller at approximately \$190,000,000. This is cautiously reported in that it reflects a time-dated basis and likely pre-dates the effective date of the option. No additional information was provided to the appraiser and is therefore weighed accordingly by the appraiser in the overall reconciliation. Generally, the appraiser treats this activity as within a reasonable range of the entire analysis.

In the final reconciliation of the Conservation Easement and the 1,577 acres to-be-donated in fee, the appraiser **ultimately concludes to a market value at \$230,000,000. The market value of the After Condition is reconciled at \$120,000,000.** The appraiser estimates the exposure period at one to two years.

Task 2 - States the basis on which the value of the land was established.

The appraiser bases the market value of the land on the highest and best use of the Hearst Ranch property, concluding to a diverse and multi-tiered highest and best use based upon varying qualities of land throughout the Ranch. Refer to the *Highest and Best Use* subsection in Task 1 for a complete discussion. A Sales Comparison Approach to value is utilized in establishing an indicator of value and reconciled to a market value opinion for both the Before Condition and After Condition.

Task 3 - Describes the standards used to prepare the appraisal.

The appraiser conducts the appraisal assignment in conformance with the Uniform Standards of Professional Appraisal Practice ("USPAP"). These standards provide the minimum requirements for developing and reporting opinions of value for various appraisal disciplines, including real property appraisal, personal property appraisal, and business appraisal. This real property appraiser *develops* the appraisal in conformance with Standard 1 of USPAP, without any departure from the minimum standards, thereby developed in a Complete format. The appraiser *reports* the appraisal in conformance with Standard 2, as a Self-Contained Appraisal Report option. This is the most comprehensive reporting option, which provides descriptive text, analyses, conclusions and supporting documentation.

Task 4 - Determines whether or not the appraisal meets the standards established under the Uniform Standards of Professional Appraisal Practice.

In the Reviewer's opinion, the appraiser has met or exceeded the minimum standards for developing and reporting the appraisal established under USPAP.

**Completeness of Material
Under Review:**

The reports contain all required information and data in conformance with USPAP. The reports are complete in all respects, particularly in terms of developing (Standard 1) the real property appraisal and reporting (Standard 2) the real property appraisal.

**Adequacy and Relevance
Of Data Under Review:**

The appraisal covers perhaps one of the most unique properties in California, an appraisal challenge that this appraiser has adequately and successfully addressed. There is a sufficient amount of data, all considered relevant in varying

degrees to solving the two-fold appraisal problem: (1) provide a market value opinion of the fee simple interest, subject to existing easements and constraints of record, otherwise in an "As Is" condition, and (2) provide a market value opinion of the fee simple interest, subject to the new, collective Conservation Easements, existing easements and constraints of record, and reduced by the contribution of 1,577 acres to-be-donated in fee, otherwise in an "As If" condition.

**Appropriateness of
Appraisal Methods &**

Techniques Under Review: The appraiser utilizes a single and widely accepted method of evaluating the subject property's market value, a Sales Comparison Approach. With an adequate amount of meaningful data and a conservative analysis with respect to not extending beyond a reasonable probability of obtaining entitlements based upon what uses may be available by right, the appraiser has taken the path of least resistance in formulating a conservative basis of highest and best use and hence market value in both the Before Condition and After Condition appraisals.

In the After Condition analysis, the appraiser has utilized effectively four (4) derivations of the Sales Comparison Approach. First, in the After Condition, the appraiser recognizes a transition in highest and best use thereby requiring a different set of sales data and once again reflects the varying quality of land subject to the Conservation Easement, along with a reduction in land area by the donated area. Secondly, the appraiser manages to uncover sales of conservation easements with sufficient information regarding the underlying value of the burdened property resulting in informative data. Thirdly, the appraiser locates another related set of sale and resale data that assists in providing applicable unit rates for the After Condition analysis. Finally, the appraiser analyzes, to the extent the information was available, a recent (April 2004) option contract covering the actual interest being appraised, which provides reasonable support and correlation with the underlying analysis and conclusions.

**Appropriateness
and Reasonableness of
Analyses, Opinions &
Conclusions Under Review:**

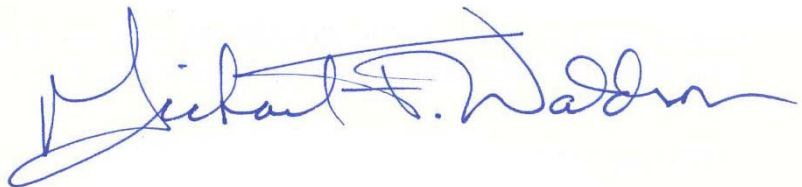
Based upon the foregoing review and examination of the manner in which this appraiser has developed and reported the above-referenced appraisals, the Reviewers conclude that this appraiser appears to be competent and the appraiser's analysis, opinions and conclusions are all considered to be appropriate and reasonable. The opinions are credible and well supported.

A Certification and Assumptions and Limiting Conditions on which this appraisal review report has been prepared are located on the following pages.

Thank you for the opportunity to be considered for your appraisal review requirements.

Respectfully submitted,

WALDRON & ASSOCIATES, INC.



Michael F. Waldron, MAI
Principal Review Appraiser
CA #AG011796



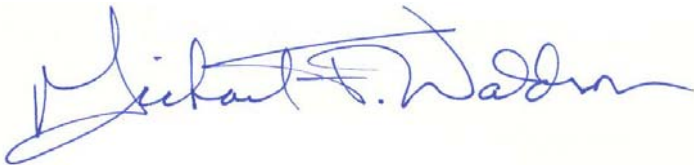
Christer Fiege-Kollmann
Senior Review Appraiser
CA #AG015749

MFW:waw

CERTIFICATION AND RESTRICTION UPON DISCLOSURE AND USE

The undersigned does hereby certify that, except as otherwise noted in this appraisal review report:

1. I have no present or prospective interest in the real estate that is the subject of this appraisal review report.
2. I have no personal interest or bias with respect to the subject matter of this appraisal review report or the parties involved.
3. The compensation received is not contingent upon any action or event resulting from the analyses, opinions, or conclusions in this review or from its use.
4. To the best of my knowledge and belief, the facts and data reported by the Reviewer and used in the review process are true and correct.
5. I have inspected portions of property that is the subject of this appraisal review report.
6. The analyses, opinions, and conclusions in this review report are limited only by the assumptions and limiting conditions stated in this review report and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
7. My analyses, opinions, and conclusions were developed and this review report was prepared in conformity with the Uniform Standards of Professional Appraisal Practice.
8. This appraisal review report has been prepared in conformity with and is subject to the requirements of the Code of Professional Ethics and Standards of Professional Practice of the Appraisal Institute.
9. No one other than the undersigned provided significant appraisal, appraisal review, or appraisal consulting assistance.
10. The use of this appraisal review report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
11. Neither all nor any part of the contents of this report shall be disseminated to the public through advertising media, public relations media, news media, sales media or any other public means of communication without the prior written consent and approval of the undersigned.
12. As of the date of this report, Mr. Waldron has completed the requirements of the continuing education program of the Appraisal Institute.
13. My engagement in this assignment was not contingent upon developing or reporting predetermined results.



CA #AG011796



CA #AG015749

**CONTINGENT AND LIMITING CONDITIONS
UPON WHICH APPRAISAL REVIEW REPORT IS PREPARED**

This appraisal review report is made expressly subject to the contingent and limiting conditions, factors and assumptions herewith:

1. All Assumptions and Limiting Conditions, Hypothetical Conditions, and Extraordinary Assumptions expressed in the appraisal report under review are assumed to be true and correct.
2. This is an Appraisal Review Report and is intended to comply with the development and reporting requirements set forth under Standard 3 of the Uniform Standards of Professional Appraisal Practice for an Appraisal Review Report. The information contained in this report is specific to the needs of the client and for the intended use stated in this report. The Reviewer is not responsible for unauthorized use of this review report.
3. No responsibility is assumed for legal or title considerations. Title to the property is assumed to be good and marketable unless otherwise stated in this review report.
4. The property under review is assumed to be free and clear of any or all liens and encumbrances unless otherwise stated in this review report.
5. Responsible ownership and competent property management for the property under review are assumed unless otherwise stated in this review report.
6. That no guarantee is made as to the correctness of estimates or opinions furnished by others which have been used in conducting this review and that no liabilities are assumed on account of inaccuracies in such estimates or opinions.
7. That this report is subject to review upon presentation of data which might be later made available, undisclosed or not available at this writing.
8. That the Reviewer herein, by reason of this review report, is not required to give testimony or attendance in court or any governmental hearing with reference to the property in question, unless arrangements have previously been made therefore.
9. All engineering is contained within the report under review are assumed to be correct. Any plot plans and illustrative material are included only to assist the reader in visualizing the property.
10. It is assumed that for the property under review there are no hidden or unapparent conditions of the property, subsoil or structures that render it more or less valuable. No responsibility is assumed for such conditions or for arranging for engineering studies that may be required to discover them.

CONTINGENT AND LIMITING CONDITIONS
UPON WHICH APPRAISAL REVIEW REPORT IS PREPARED (Continued)

11. It is assumed that for the property under review there is full compliance with all applicable federal, state and local environmental regulations and laws unless otherwise stated in report under review.
12. It is assumed that for the property under review all applicable zoning and use regulations and restrictions have been complied with, unless a nonconformity has been stated, defined and considered in this review report.
13. It is assumed that for the property under review all required licenses, certificates of occupancy or other legislative or administrative authority from any local, state or national governmental or private entity or organization have been or can be obtained or renewed for any use on which the value estimates under review in this report are based.
14. Any sketch for the property under review may show approximate dimensions and is included to assist the reader in visualizing the property. Maps and exhibits under review are provided for reader reference purposes only. No guarantee as to accuracy is expressed or implied unless otherwise stated in this review report. No survey has been made for the purpose of this review report.
15. It is assumed that the utilization of the land and improvements is within the boundaries or property lines of the property described within the appraisal under review and that there is no encroachment or trespass unless otherwise stated in the appraisal under review.
16. For the property under review, the Reviewer is not qualified to detect hazardous waste and/or toxic materials. Any comment by the Reviewer that might suggest the possibility of the presence of such substances should not be taken as confirmation of the presence of hazardous waste and/or toxic materials. Such determination would require investigation by a qualified expert in the field of environmental assessment. The presence of substances such as asbestos, urea-formaldehyde foam insulation or other potentially hazardous materials may affect the value of the property. The Reviewer's opinions and conclusions are predicated on the assumption that there is no such material on or in the property that would cause a loss in value unless otherwise stated in this report. No responsibility is assumed for any environmental conditions or for any expertise or engineering knowledge required to discover them. No responsibility is assumed by the Reviewer for the existence of any hazardous or toxic wastes nor for the determination of the costs of removal and/or disposal thereof.

CONTINGENT AND LIMITING CONDITIONS
UPON WHICH APPRAISAL REVIEW REPORT IS PREPARED (Continued)

17. Unless otherwise stated in this report, the subject property under review is without a specific compliance survey having been conducted to determine if the property is or is not in conformance with the requirements of the Americans with Disabilities Act. The presence of architectural and communications barriers that are structural in nature that would restrict access by disabled individuals may adversely affect the property's value, marketability or utility.
18. Any proposed improvements for the property under review are assumed to be completed in a good workmanlike manner in accordance with the submitted plans and specifications.
19. Possession of this review report, or a copy thereof, does not carry with it the right of publication. It may not be used for any purpose by any person other than the party to whom it is addressed without the written consent of the appraiser and, in any event, only with proper written qualification and only in its entirety.
20. Neither all nor any part of the contents of this review report shall be disseminated to the public through advertising, public relations, news sales or other media without prior written consent and approval of the appraiser.